

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY & EXHIBITS**

OF

SARAH W. JOHNSON

AUGUST 17, 2018



DOCKET NO. 2018-3-E

**ANNUAL REVIEW OF BASE RATES FOR
FUEL COSTS OF DUKE ENERGY
CAROLINAS, LLC**

DIRECT TESTIMONY AND EXHIBIT OF

SARAH W. JOHNSON

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2018-3-E

IN RE: ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS

OF DUKE ENERGY CAROLINAS, LLC

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Sarah W. Johnson. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Deputy Director of Utility Services in the Utility Rates and Services Division of the Office of Regulatory Staff (“ORS”).

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received my Bachelor of Science from the University of South Carolina in 1995. Prior to my employment with ORS, I held a variety of positions supporting both regulated and deregulated utility operations for electric, natural gas, and telecommunication providers across the southeast. My duties included customer service, information technology, product marketing, and regulatory consulting.

I joined ORS in 2016 as Deputy Director of Utility Services. In this role I supervise the daily activities related to the technical areas of Distributed Energy Resources, solar leasing, and Demand Side Management and Energy Efficiency. I am also responsible for the daily operations of ORS Consumer Services Division.

Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?

A. Yes. I have testified before the Commission in matters related to electric utility annual review of base rates for fuel proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to set forth ORS’s recommendations resulting from the examination of Duke Energy Carolinas, LLC’s (“DEC” or “Company”) Distributed Energy Resource Program (“DERP”) expenses for the period of June 2017 through May 2018 (“Actual Period”), June 2018 through September 2018 (“Estimated Period”), and October 2018 through September 2019 (“Forecasted Period”).

Q. WHAT EXPENSES RELATED TO THE COMPANY’S DERP ARE INCLUDED IN THIS PROCEEDING?

A. Pursuant to S.C. Code Ann. § 58-39-130(A)(2) (2015), an electrical utility with an approved DERP may recover associated costs that are reasonably and prudently incurred, and pursuant to S.C. Code Ann. § 58-39-140(F) (2015), cost recovery shall remain in force until all approved DERP components have been recovered. The Company’s DERP was approved in Commission Order No. 2015-515 and the Company included in this filing actual, estimated and forecasted avoided and incremental costs for the period of June 1, 2017 through September 30, 2019.

Q. PLEASE EXPLAIN THE INCLUSION OF DERP AVOIDED COSTS TO BE RECOVERED IN THIS PROCEEDING.

A. According to S.C. Code Ann. § 58-39-140, payments for electricity provided under the DERP that are paid at avoided cost rates or rates negotiated pursuant to the Public

Utility Regulatory Policy Act of 1978 (“PURPA”), whichever is lower, are eligible to be recovered through the DERP avoided cost component.

The Company incurred DERP avoided costs during the Actual Period related to excess Net Energy Metering (“NEM”) payments to customers, and three (3) buy-all sell-all customer agreements. In addition, the Company included avoided costs in the Forecasted Period for purchased power agreements and the Shared Solar program projected to be operational in December 2018. The Company allocated these costs using the same method used to allocate and recover variable environmental costs. Actual and estimated DERP avoided cost totals are shown in ORS witness Briseno’s Audit Exhibit ADB-10.

Q. WHAT TYPES OF EXPENSES DID THE COMPANY INCLUDE AS DERP INCREMENTAL COSTS?

A. The Company included General and Administrative costs incurred to implement the Company’s DERP, NEM incentives, NEM avoided capacity costs, amortization of solar rebates and related carrying costs, and NEM meter costs for the Actual Period. The Company also included costs for purchased power agreements and the Shared Solar Program for the Forecasted Period. Actual and estimated cost totals are shown in ORS witness Briseno’s Audit Exhibit ADB-9. Exhibit SWJ-1 reflects the under-recovered and total estimated and forecasted incremental costs.

Q. PLEASE EXPLAIN THE COMPANY’S ADJUSTMENTS RELATED TO DERP INCREMENTAL COSTS.

A. In March 2018, the Company made an adjustment of \$20,337 to the NEM Incentive costs, NEM Meter Costs, and NEM Avoided Capacity costs, as well as an adjustment of

1 \$5,807 to base fuel costs. These adjustments resulted from an error detected when
2 reconciling customer billing system information with final cost reports.

3 In April 2018, the Company made an adjustment of \$310,604 to the NEM Incentive
4 costs, NEM Meter costs, and NEM Avoided Capacity costs, as well as an adjustment of
5 \$80,739 to base fuel costs. These adjustments resulted from an error discovered in the solar
6 profile input data used to calculate the NEM cost components.

7 In May 2018, the Company made an adjustment of \$4,649. This adjustment resulted
8 from the misallocation of certain costs and to remove other costs not associated with the
9 Company's DERP.

10 ORS met with Company personnel to discuss all discrepancies and verify the
11 corresponding adjustments. The adjustments to base fuel and incremental costs are
12 reflected on ORS witness Briseno's Audit Exhibits ADB-5 and ADB-9, respectively.

13 **Q. HAS THE ISSUE RELATED TO THE SOLAR REBATE PROGRAM AS**
14 **DISCUSSED IN ORDER 2017-597 BEEN RESOLVED?**

15 **A.** Yes. ORS reviewed and verified Company data regarding the sample of solar rebate
16 accounts. ORS finds the Company's proposed cost recovery for those rebates in this
17 proceeding to be reasonable and the issue to be resolved.

18 **Q. DOES ORS RECOMMEND ANY ADDITIONAL ADJUSTMENTS TO THE**
19 **COMPANY'S DERP AVOIDED AND INCREMENTAL COSTS?**

20 **A.** No. ORS met with Company personnel to discuss continued DERP
21 implementation, to evaluate the prudence and reasonableness of expenses, and review the
22 Company's methodology for allocating and recovering DERP expenses. ORS found the
23 Company's DERP avoided and adjusted incremental costs to be reasonably and prudently

1 incurred in implementing the Company's DERP. ORS also reviewed the Company's
2 Estimated and Forecasted DERP avoided and incremental costs and found them to be
3 reasonable.

4 **Q. DID THE COMPANY UPDATE THE VALUE OF DISTRIBUTED ENERGY**
5 **RESOURCES?**

6 **A.** Yes. As shown in Company witness Snider's testimony (page 4), DEC proposes a
7 total value of NEM distributed generation of \$0.05323/kilowatt-hour ("kWh") for small
8 solar generation and \$0.05310/kWh for large solar generation.

9 **Q. IS THE COMPANY'S CALCULATION OF THE NEM INCENTIVE**
10 **CONSISTENT WITH DOCKET NO. 2014-246-E?**

11 **A.** Yes. The Company used the methodology approved in Commission Order No.
12 2015-194 to calculate the NEM incentive.

13 **Q. PLEASE EXPLAIN THE DERP CHARGE PER ACCOUNT.**

14 **A.** The fixed charge by which the Company proposes to recover DERP incremental
15 costs ("DERP Charge") is determined by allocating DERP incremental expenses in the
16 same way the Company allocates variable environmental expenses. The revenue is
17 collected as a fixed charge per account to ensure that no account charge exceeds the annual
18 recovery caps prescribed in S.C. Code Ann. § 58-39-150. ORS finds the Company's
19 methodology to calculate, allocate and collect the DERP Charge complies with Act 236
20 and with Commission orders.

21 **Q. DOES ORS RECOMMEND ANY ADJUSTMENTS TO THE COMPANY'S**
22 **PROPOSED DERP CHARGES?**

1 **A.** Yes. During the review process, ORS detected an error in the Company's data
2 related to average number of customer accounts per class used in the calculation of DERP
3 charges. The correction of this error decreases the DERP charges proposed for the
4 Residential and Commercial classes. The revised DERP charges are shown in Exhibit SWJ-
5 1.

6 **Q. WILL THE ANNUAL DERP CHARGE RECOVER ALL THE INCREMENTAL**
7 **COSTS?**

8 **A.** No. The DERP Charge will not recover all the incremental costs allocated to the
9 industrial customer class. A full recovery of DERP incremental costs would require an
10 annual DERP charge of \$2,908.96 for industrial customers. However, the annual recovery
11 caps prescribed in S.C. Code Ann. § 58-39-150 limit the amount Industrial customers can
12 be charged each year to \$1,200. DEC's revised annual DERP charge will recover all
13 incremental costs from Residential and Commercial customers as the costs are under the
14 annual recovery caps of \$12 and \$120 respectively. See Exhibit SWJ-1 for the DERP
15 charge per customer class.

16 **Q. HOW WILL UNDER-COLLECTED INCREMENTAL COSTS BE TREATED?**

17 **A.** Under-collected incremental costs will be treated in the same manner as other fuel
18 and fuel-related under-collected balances are treated. The under-collection will earn
19 carrying costs until next year when it will be reallocated using each class's contribution to
20 peak demand.

21 **Q. DID ORS REVIEW THE PROPOSED UPDATES TO RIDER RNM THAT THE**
22 **COMPANY INCLUDED IN THIS PROCEEDING?**

1 **A.** Yes. ORS reviewed the modifications as discussed in Company witness Martin's
2 testimony and shown in Martin Exhibit 1. The Company updated the value of NEM
3 distributed energy resources and revised the availability provisions of the Rider to reflect
4 the closure of the NEM program to new applicants beginning August 1, 2018. ORS
5 reviewed the Company's modifications to Rider RNM but reserves the right to address the
6 rates and the terms and conditions in subsequent fuel proceedings or other proceedings as
7 appropriate.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A.** Yes.

Office of Regulatory Staff
Calculation of DERP Charge
Duke Energy Carolinas, LLC
Docket No. 2018-3-E

EXHIBIT SWJ-1

(Over)/Under-Recovery of DERP Incremental Costs			
June 2017 through September 2018			
	Residential	Commercial	Industrial
Cumulative (Over)/Under-Recovery	\$669,940	\$486,766	\$568,105
(Over)/Under-Recovery of DERP Incremental Costs			
October 2018 through September 2019			
	Residential	Commercial	Industrial
Cumulative (Over)/Under-Recovery	\$4,619,734	\$3,356,615	\$3,917,509
Total DERP Charge			
October 2017 through September 2019			
	Residential	Commercial	Industrial¹
Cumulative Under-Recovery through September 2019	\$5,289,674	\$3,843,381	\$4,485,614
Number of accounts	492,980	74,833	1,542
Annual Cost (\$) ²	\$10.73	\$51.36	\$1,200.00
Monthly DERP Charge (\$) ²	\$0.89	\$4.28	\$100.00

¹ Monthly Charge and Annual Charge are capped in compliance with Act 236. The under-collection will be reallocated in the 2019 fuel proceeding.

² ORS' review does not include Gross Receipts Tax.